

### KEY CONCEPTS

■ Audit Committee ■ Nomination and Remuneration Committee ■ Stakeholders Relationship Committee ■ CSR Committee ■ Risk Management Committee ■ Regulatory Compliance and Government Affairs Committee

### Learning Objectives

#### To understand:

- Rationale for Board Committees
- Management through board
- Committees and the constitution
- Scope of various Committees
- Various board committees

### Lesson Outline

- Introduction
- Regulatory Framework
- Need for Committees
- Rationale behind Board Committees
- Committee Management
- Selection of Committee Members
- Appointment of Committee Chairman
- Mandatory Committees of the Board
  - Audit Committee
  - Nomination and Remuneration Committee
  - Stakeholders Relationship Committee
  - CSR Committee
  - Risk Management Committee
  - Vigil Mechanism
- Non-Mandatory Committees and its Examples
- Lesson Round-Up
- Glossary
- Test Yourself
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## INTRODUCTION

A committee of the board is a small working group identified by the board, consisting primarily of board members, for the purpose of supporting the board's work. Committees are generally formed to perform some specified work. Members of the committee are expected to have expertise in the specified field.

Regulation 2(1)(g) of the SEBI (LODR) Regulations, 2015 states that "Committee" shall mean committee of board of directors or any other committee so constituted. Regulation 4(2)(f)(iii)(11) states that when committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.

Committees are usually formed as a means of improving board effectiveness and efficiency, in areas where more focused, specialized and technical discussions are required. These committees prepare the groundwork for decision making and report at the subsequent board meeting. Committees enable better management of full board's time and allow in-depth scrutiny and focused attention.

However, the Board of Directors is ultimately responsible for the acts of the committee. Board is responsible for defining the committee role and structure. The structure of a board and the planning of the board's work are key elements to effective governance. Establishing committees is one way of managing the work of the board, thereby strengthening the board's governance role. Boards should regularly review its own structure and performance and whether it has the right committee structure and an appropriate scheme of delegation from the board.

## NEED FOR COMMITTEES

With increasing business complexities and time commitment of Board members, constituting committees has become inevitable for organization of any significant size.

The Companies Act, 2013 and SEBI (LODR) Regulations, 2015 have provided a very robust regulatory framework to emphasize that effectiveness of Board Committees as key to an effective Board.

Committees keep the number of participants manageable; in larger groups, either many people do not get to speak or discussion gets quite lengthy. Committees can be set up for a specific purpose or to deal with general issues such as 'development'. They can be established on a short-term or temporary basis, or they can be formed as a permanent body for ongoing work.

A Board can either delegate some of its powers to the committee, enabling it to act directly, or can require the recommendations of the committee to be approved by the Board. The Board will normally depend heavily on the findings and recommendations of its committees, although final decisions to accept or reject these recommendations will be made by the Board.

Committees need clear goals, objectives, and terms of reference in order to function efficiently, and Boards should ensure that these are developed before establishing the committee. Many committees have been known to work outside their intended purpose due to a lack of precise objectives.

### **Committees thus have an important role -**

- to strengthen the governance arrangements of the company and support the Board in the achievement of the strategic objectives of the company ;
- to strengthen the role of the Board in strategic decision making and supports the role of non-executive directors in challenging executive management actions;
- to maximise the value of the input from non-executive directors, given their limited time commitment;
- to support the Board in fulfilling its role, given the nature and magnitude of the agenda.

### RATIONALE BEHIND BOARD COMMITTEES

- To improve Board effectiveness and efficiency.
- Minor details need to be evaluated/ analysed to arrive at a logical conclusion. This requires body having expertise in subject matter, a Board Committee shall in such cases assist the Board and give well considered recommendations to the Board. e.g. Audit Committee go through minor details of internal audit reports which is not possible and give suitable recommendations, this is not possible for entire Board to consider.
- Insulate Board from potential undue influence of controlling shareholders and managers.
- Committees prepare groundwork for decision making and submit their recommendations to the Board for decision making.
- Enables better management of Board's time and allows in-depth scrutiny of proposals.
- Establishing committees is one way of managing the work of the Board and strengthening the Board's governance role.

### COMMITTEE MANAGEMENT

- Committees function in accordance with the terms of reference established by the board.
- Committees may be standing committees; or ad-hoc committees that cease when the activities are completed.
- Standing committees should be included in the articles or bylaws.
- Committees recommend policy for approval by the entire board.
- Committees make full use of board members' expertise, time and commitment, and ensure diversity of opinions on the board.
- They do not supplant responsibility of each board member; they operate at the board level and not the staff level.
- Minutes should be recorded for all Committee meetings and final minutes are required to be placed before the Board.

**Table F of Schedule I of the Companies Act, 2013 provides that Articles of Association of a company limited by shares shall contain the following:**

- 71 (i) The Board may, subject to the provisions of the Act, delegate any of its powers to committees consisting of such member or members of its body as it thinks fit.
- (ii) Any committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may be imposed on it by the Board.
- 72 (i) A committee may elect a Chairperson of its meetings.
- (ii) If no such Chairperson is elected, or if at any meeting the Chairperson is not present within five minutes after the time appointed for holding the meeting, the members present may choose one of their members to be Chairperson of the meeting.
- 73 (i) A committee may meet and adjourn as it thinks fit.
- (ii) Questions arising at any meeting of a committee shall be determined by a majority of votes of the members present, and in case of an equality of votes, the Chairperson shall have a second or casting vote.

74 All acts done in any meeting of the Board or of a committee thereof or by any person acting as a director, shall, notwithstanding that it may be afterwards discovered that there was some defect in the appointment of any one or more of such Directors or of any person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such director or such person had been duly appointed and was qualified to be a director.

75 Save as otherwise expressly provided in the Act, a resolution in writing, signed by all the members of the Board or of a committee thereof, for the time being entitled to receive notice of a meeting of the Board or committee, shall be valid and effective as if it had been passed at a meeting of the Board or committee, duly convened and held.

### SELECTION OF COMMITTEE MEMBERS

Specific committee members may be appointed by either the Board or the committee Chairman. Area of knowledge and expertise domain and time commitment of the Board member should be considered as the criteria for the selection on any specific committee. The committee members should be selected with following questions in mind:

What tasks are the committee responsible for and who among the members possess the skills and experience needed to complete those tasks. Every effort should be made to match the needs and requirements of the committee and the skills, knowledge and interests of prospective committee members.

It is very important that members have a clear view of the committee's goals and the chairman should have flair to utilize the committee member's knowledge exponentially well to achieve those goals.

### APPOINTMENT OF COMMITTEE CHAIRMAN

The Board may appoint the committee chairman or the committee members can choose/elect the chairman. The committee chairman is the key to an effective committee, he sets the tone, pace and strategies of the committees' functioning, hence chairman selected should have motivational and leadership skills and time commitment expected of him.

In seeking an effective chairman, most important things are knowledge and experience relevant to the work of the committee, proven leadership and behavioral skills that will be essential if the committee is to work effectively. The role of committee chairman requires extra work, time for communication with committee members and senior management so that he remains informed about the developments and a willingness to resolve conflicts among members.

The committee chairman co-ordinates work and establishes an environment of thoughtful deliberation. The chairman is expected to stimulate the members and help the group use all the abilities and experiences its members possess and new skills that they develop as they work together. The committee's goal must be aligned to achieve the objectives of the organization as a whole. The committee chairman will be responsible for preparing agendas for the meetings, assigning responsibilities to committee members and doing some of the follow-up to make sure that the assigned work is being done by members.

**Para 72 of Table F of Schedule I of the Companies Act, 2013 provides that –**

- (i) A committee may elect a Chairperson of its meetings.
- (ii) If no such Chairperson is elected, or if at any meeting the Chairperson is not present within five minutes after the time appointed for holding the meeting, the members present may choose one of their members to be Chairperson of the meeting.

### Meetings of the Committee

**Para 5.2. of the SS-1** provides that a member of the Committee appointed by the Board or elected by the Committee as Chairman of the Committee, in accordance with the Act or any other law or the Articles, shall conduct the Meetings of the Committee. If no Chairman has been so elected or if the elected Chairman is unable to attend the Meeting, the Committee shall elect one of its members present to chair and conduct the Meeting of the Committee, unless otherwise provided in the Articles.

### MANDATORY COMMITTEES

<i>As per Companies Act, 2013</i>	<i>As per SEBI (LODR) Regulations, 2015</i>
Audit Committee	Audit Committee
Nomination and Remuneration committee	Nomination and Remuneration committee
Stakeholders Relationship Committee	Stakeholders Relationship Committee
Corporate Social Responsibility Committee	Risk Management Committee

### AUDIT COMMITTEE

**As per the provisions of the Companies Act, 2013**

#### Constitution of Audit Committee – Section 177(1)

Section 177(1) read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014 and Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that the Board of Directors of following class of companies shall constitute an Audit Committee:

- Every listed public company; and
- Every unlisted public company, whose:
  - Paid up share capital is ten crore rupees or more; or
  - Turnover of one hundred crore rupees or more; or
  - Aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees

#### Minimum Number of Director in Audit Committee – Section 177(2)

The Audit Committee shall consist of a **minimum of three Directors with independent Directors forming a majority**. Provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

#### Functions of Audit Committee – Section 177(4)

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

- (i) the recommendation for appointment, remuneration and terms of appointment of auditors of the company;
- (ii) review and monitor the auditor's independence and performance, and effectiveness of audit process;
- (iii) examination of the financial statement and the auditors' report thereon;

- (iv) approval or any subsequent modification of transactions of the company with related parties;

Provided that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;

Provided further that in case of transaction, other than transactions referred to in section 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board:

Provided also that in case any transaction involving any amount not exceeding one crore rupees is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other director, the director concerned shall indemnify the company against any loss incurred by it:

Provided also that the provisions of this clause shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

- (v) scrutiny of inter-corporate loans and investments;
- (vi) valuation of undertakings or assets of the company, wherever it is necessary;
- (vii) evaluation of internal financial controls and risk management systems;
- (viii) monitoring the end use of funds raised through public offers and related matters.

#### **Internal Control System - Section 177(5)**

The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

#### **Investigation – Section 177(6)**

The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company.

#### **Auditors and KMPs have right to be heard, but no right to vote – Section 177(7)**

The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote.

#### **Disclosure of Composition of Audit Committee in Board's Report – Section 177(8)**

The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor.

### **PROVISIONS OF THE SEBI (LODR) REGULATIONS, 2015**

#### **Constitution of Audit Committee – Regulation 18(1)**

Every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

- (a) The audit committee shall have minimum three directors as members.

- (b) At least two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
- (c) All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

*Explanation (1).*- For the purpose of this regulation, “financially literate” shall mean the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

*Explanation (2).*- For the purpose of this regulation , a member shall be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

- (d) The chairperson of the audit committee shall be an independent director and he /she shall be present at Annual general meeting to answer shareholder queries.
- (e) The Company Secretary shall act as the secretary to the audit committee.
- (f) The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee:

Provided that occasionally the audit committee may meet without the presence of any executives of the listed entity.

### Meetings of the Audit Committee – Regulation 18(2)

The listed entity shall conduct the meetings of the audit committee in the following manner:

- (a) The audit committee shall meet at least four times in a financial year and not more than one hundred and twenty days shall elapse between two consecutive meetings.
- (b) The quorum for audit committee meeting shall either be two members or one third of the members of the audit committee, whichever is greater, with at least two independent directors.
- (c) The audit committee shall have powers to investigate any activity within its terms of reference, seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

### Role of the Audit Committee – Regulation 18(3)

The role of the audit committee and the information to be reviewed by the audit committee shall be as specified in **Part C of Schedule II**. Regulation 18(3) is placed below:

#### **A. The role of the audit committee shall include the following:**

- (1) oversight of the listed entity’s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- (2) recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;

- (3) approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- (4) reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
  - (a) matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
  - (b) changes, if any, in accounting policies and practices and reasons for the same;
  - (c) major accounting entries involving estimates based on the exercise of judgment by management;
  - (d) significant adjustments made in the financial statements arising out of audit findings;
  - (e) compliance with listing and other legal requirements relating to financial statements;
  - (f) disclosure of any related party transactions;
  - (g) modified opinion(s) in the draft audit report;
- (5) reviewing, with the management, the quarterly financial statements before submission to the board for approval;
- (6) reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public issue or rights issue or preferential issue or qualified institutions placement, and making appropriate recommendations to the board to take up steps in this matter;
- (7) reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
- (8) approval or any subsequent modification of transactions of the listed entity with related parties;
- (9) scrutiny of inter-corporate loans and investments;
- (10) valuation of undertakings or assets of the listed entity, wherever it is necessary;
- (11) evaluation of internal financial controls and risk management systems;
- (12) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
- (13) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- (14) discussion with internal auditors of any significant findings and follow up there on;
- (15) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- (16) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
- (17) to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;

- (18) to review the functioning of the whistle blower mechanism;
- (19) approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
- (20) Carrying out any other function as is mentioned in the terms of reference of the audit committee.
- (21) reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision.
- (22) consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.

**B. The audit committee shall mandatorily review the following information:**

- (1) management discussion and analysis of financial condition and results of operations;
- (2) management letters / letters of internal control weaknesses issued by the statutory auditors;
- (3) internal audit reports relating to internal control weaknesses; and
- (4) the appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee.
- (5) statement of deviations:
  - (a) quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).
  - (b) annual statement of funds utilized for purposes other than those stated in the offer document/ prospectus/notice in terms of Regulation 32(7).

## NOMINATION AND REMUNERATION COMMITTEE

### AS PER THE PROVISIONS OF THE COMPANIES ACT, 2013

#### Nomination and Remuneration Committee and Stakeholders Relationship Committee – Section 178

##### Constitution of Nomination and Remuneration Committee – Section 178(1)

Section 178(1) read with Rule 6 of the Companies (Meetings of Board and its Powers) Rules, 2014 and Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014 provides that the Board of Directors of following class of companies shall constitute Nomination and Remuneration Committee, consisting of three or more non-executive Directors out of which not less than one-half shall be independent directors:

- Every listed public company; and
- Every unlisted public company, whose:
  - Paid up share capital is ten crore rupees or more; or
  - Turnover of one hundred crore rupees or more; or
  - Aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees

Provided that the chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such Committee.

**Identification of persons to become Director -Section 178(2)**

The Nomination and Remuneration Committee shall identify persons who are qualified to become Directors and who may be appointed in senior management in accordance with the criteria laid down, recommend to the Board their appointment and removal and shall specify the manner for effective evaluation of performance of Board, its committees and individual Directors to be carried out either by the Board, by the Nomination and Remuneration Committee or by an independent external agency and review its implementation and compliance.

**Eligibility Criteria for appointment of Director – Section 178(3)**

The Nomination and Remuneration Committee shall formulate the criteria for determining qualifications, positive attributes and independence of a director and recommend to the Board a policy, relating to the remuneration for the Directors, key managerial personnel and other employees.

**Remuneration to Directors and KMPs – Section 178(4)**

The Nomination and Remuneration Committee shall, while formulating the policy under sub-section (3) ensure that—

- (a) the level and composition of remuneration is reasonable and sufficient to attract, retain and motivate Directors of the quality required to run the company successfully;
- (b) relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
- (c) remuneration to Directors, key managerial personnel and senior management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals:

Provided that such policy shall be placed on the website of the company, if any, and the salient features of the policy and changes therein, if any, along with the web address of the policy, if any, shall be disclosed in the Board's report.

The expression "Senior Management" means personnel of the Company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive directors including the functional heads.

**Chairman to attend General Meetings – Section 178(7)**

The chairperson of each of the committees constituted under this section or, in his absence, any other member of the committee authorised by him in this behalf shall attend the general meetings of the company.

**PROVISIONS OF THE SEBI (LODR) REGULATIONS, 2015****Constitution of Nomination and Remuneration Committee – Regulation 19(1)**

The board of directors shall constitute the nomination and remuneration committee as follows:

- (a) the committee shall comprise of at least three directors ;
- (b) all directors of the committee shall be non-executive directors; and
- (c) at least two-thirds of the directors shall be independent directors.

**Chairperson – Regulation 19(2)**

The Chairperson of the nomination and remuneration committee shall be an independent director:

Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.

**Quorum – Regulation 19(2A)**

The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.

**Chairperson to be present at the Annual General Meeting – Regulation 19(3)**

The Chairperson of the nomination and remuneration committee may be present at the annual general meeting, to answer the shareholders' queries; however, it shall be up to the chairperson to decide who shall answer the queries.

**Number of Meetings: Regulation 19(3A)**

The nomination and remuneration committee shall meet at least once in a financial year.

**Role of the nomination and remuneration committee – Regulation 19(4)**

The role of the nomination and remuneration committee shall be as specified as in Part D of the Schedule II to the Regulation 19(4) is as under:

**Role of committee shall, *inter-alia*, include the following:**

- (1) formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees.
- (1A) For every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may:
  - a. use the services of an external agencies, if required;
  - b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
  - c. consider the time commitments of the candidates.
- (2) formulation of criteria for evaluation of performance of independent directors and the board of directors;
- (3) devising a policy on diversity of board of directors;
- (4) identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal.

- (5) whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.
- (6) recommend to the board, all remuneration, in whatever form, payable to senior management.

## STAKEHOLDERS RELATIONSHIP COMMITTEE

As per the Provisions of the Companies Act, 2013

### Constitution of Stakeholders Relationship Committee – Section 178(5)

The Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee consisting of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.

### Resolving the Grievances – Section 178(6)

The Stakeholders Relationship Committee shall consider and resolve the grievances of security holders of the company.

### Chairman to attend General Meetings - Section 178(7)

The chairperson of the **Stakeholders Relationship Committee** or, in his absence, any other member of the committee authorised by him in this behalf shall attend the general meetings of the company.

### Penalty for Contravention - Section 178(8)

In case of any contravention of the provisions of section 177 and this section, the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of one lakh rupees.

Provided that inability to resolve or consider any grievance by the Stakeholders Relationship Committee in good faith shall not constitute a contravention of this section.

*Explanation.*—The expression “senior management” means personnel of the company who are members of its core management team excluding Board of Directors comprising all members of management one level below the executive Directors, including the functional heads.

## PROVISIONS OF THE SEBI (LODR) REGULATIONS, 2015

### Stakeholders Relationship Committee – Regulation 20

#### Constitution of Stakeholders Relationship Committee – Regulation 20(1)

The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders.

#### Chairperson – Regulation 20(2)

The chairperson of this committee shall be a non-executive director.

#### Composition – Regulation 20 (2A)

At least three directors, with at least one being an independent director, shall be members of the Committee and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors.

**Chairperson to be present at the Annual General Meetings – Regulation 20(3)**

The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders.

**Number of Meetings – Regulation 20(3A)**

The stakeholders relationship committee shall meet at least once in a financial year.

The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II to Regulation 20 is as under:

- (1) Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
- (2) Review of measures taken for effective exercise of voting rights by shareholders.
- (3) Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar & Share Transfer Agent.
- (4) Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.
- (5) Resolving grievances of debenture holders related to creation of charge, payment of interest/principal, maintenance of security cover and any other covenants.

**CORPORATE SOCIAL RESPONSIBILITY COMMITTEE (CSR COMMITTEE)**

**As per the Provisions of the Companies Act, 2013**

**Constitution of CSR Committee – Section 135(1)**

Every company having-

- net worth of rupees five hundred crore or more, or
- turnover of rupees one thousand crore or more, or
- a net profit of rupees five crore or more

during the immediately preceding financial year

shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more Directors, out of which at least one director shall be an independent director.

Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more Directors.

Section 149(4) states that every listed public company shall have at least one-third of the total number of Directors as independent Directors and the Central Government may prescribe the minimum number of independent Directors in case of any class or classes of public companies.

*Explanation.*– For the purposes of this sub-section, any fraction contained in such one-third number shall be rounded off as one.

**Rule 3** of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides that every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having

its branch office or project office in India, which fulfills the criteria specified in sub-section (l) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and Profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

Provided further that a company having any amount in its Unspent Corporate Social Responsibility Account as per sub-section (6) of section 135 shall constitute a CSR Committee and comply with the provisions contained in sub-sections (2) to (6) of the said section.

#### **Display of CSR Policy – Section 135(4)**

The Board of Directors after taking into account the recommendations of the CSR Committee approve the Corporate Social Responsibility Policy for the Company and disclose contents of such Policy in its Report and also place it on the Company's website, if any, in such manner as may be prescribed.

The Board shall also ensure that the activities as are included in the CSR Policy of the Company are undertaken by the Company.

#### **CSR Committee - Rule 5 of the Companies (Corporate Social Responsibility Policy) Rules, 2014**

- (1) The companies mentioned in the rule 3 shall constitute CSR Committee as under.-
  - (i) a company covered under subsection (1) of section 135 which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director;
  - (ii) a private company having only two directors on its Board shall constitute its CSR Committee with two such directors;
  - (iii) with respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and another person shall be nominated by the foreign company.
- (2) The CSR Committee shall formulate and recommend to the Board, an annual action plan in pursuance of its CSR Policy, which shall include the following, namely:-
  - (a) the list of CSR projects or programmes that are approved to be undertaken in areas or subjects specified in Schedule VII of the Act;
  - (b) the manner of execution of such projects or programmes as specified in sub-rule (1) of rule 4;
  - (c) the modalities of utilisation of funds and implementation schedules for the projects or programmes;
  - (d) monitoring and reporting mechanism for the projects or programmes; and
  - (e) details of need and impact assessment, if any, for the projects undertaken by the company;

Provided that Board may alter such plan at any time during the financial year, as per the recommendation of its CSR Committee, based on the reasonable justification to that effect.

#### **Disclosure of Composition of CSR Committee – Section 135(2)**

The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

**CSR Policy – Section 135(3)**

The Corporate Social Responsibility Committee shall,—

- (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company in areas or subject, specified in Schedule VII;
- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) monitor the Corporate Social Responsibility Policy of the company from time to time.

**Exemption from constituting CSR Committee – Section 135(9)**

Where the amount to be spent by a company under sub-section (5) does not exceed fifty lakh rupees, the requirement under sub-section (1) for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

**RISK MANAGEMENT COMMITTEE**

As per the Provisions of the SEBI (LODR) Regulations, 2015

**Constitution of Risk Management Committee – Regulation 21(1)**

(1) The board of directors shall constitute a Risk Management Committee.

**Number of Members – Regulation 21(2)**

The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors.

**Chairperson of Risk Management Committee – Regulation 21(3)**

The Chairperson of the Risk management committee shall be a member of the board of directors and senior executives of the listed entity may be members of the committee.

**Number of Meetings – Regulation 21(3A)**

The risk management committee shall meet at least **twice** in a financial year.

**Quorum – Regulation 21(3B)**

The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance.

**Gap between two meetings – Regulation 21(3C)**

The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than two hundred and ten days shall elapse between any two consecutive meetings.

**Board to decide the Role and Responsibility – Regulation 21(4)**

The board of directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit such function shall specifically cover cyber security:

Provided that the role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in **Part D of Schedule II**.

**Applicability – Regulation 21(5)**

The provisions of this regulation shall be applicable to:

- i. the top 1000 listed entities; and,
- ii. a 'high value debt listed entity'.

**Power of Risk Management Committee – Regulation 21(6)**

The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.

**Role of Risk Management Committee specified in Schedule II is as under:**

**PART D of SCHEDULE II [SEBI (LODR) Regulations, 2015]****ROLE OF COMMITTEES (OTHER THAN AUDIT COMMITTEE)****C. Risk Management Committee**

The role of the committee shall, *inter alia*, include the following:

- (1) To formulate a detailed risk management policy which shall include:
  - (a) A framework for identification of internal and external risks specifically faced by the listed entity, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.
  - (b) Measures for risk mitigation including systems and processes for internal control of identified risks.
  - (c) Business continuity plan.
- (2) To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Company;
- (3) To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;
- (4) To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity;
- (5) To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- (6) The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.

The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

**NON-MANDATORY COMMITTEES**

In addition to the Committees of the Board mandated by the Companies Act 2013 or SEBI (LODR) Regulations, 2015, Companies may also constitute other Committees to oversee a specific objective or project. The nomenclature, composition and role of such Committees will vary depending upon the specific objectives and nature of business of the Company.

A few examples of such Committees prevalent in the corporate sector are given below:

**1. ESG Committee:**

**HCL Technologies Limited:**

In addition to the mandatory Committees of the Board, the Company has constituted an ESG and Diversity Equity Inclusion Committee of the Board to focus on ESG and Gender Diversity.

The Committee is composed of three members out of which two are Independent Directors.

To provide a thrust on Sustainability, the Company has also created a position of Global Head of Sustainability

**Hindustan Unilever Limited:**

The Company has integrated sustainability goals into their business strategy and set up a separate Environmental, Social and Governance Committee on 1<sup>st</sup> December 2022 to oversee ESG practices and ESG risks at the Board Level.

The ESG Committee comprises six Directors five Independent

Directors and One Executive Director. The Committee is chaired by an Independent Director.

**Bharat Petroleum Corporation Limited:**

The Company has made ESG their driving force guiding their investment decisions and risk management. The Company has established a Sustainable Development Committee consisting of six Directors out of which four are Independent. The Committee is chaired by an Independent Director. The Committee is responsible for overseeing strategy and monitoring of key sustainable initiatives.

**2. Safety Committee:**

**Tata Motors Ltd:**

The Company has instituted a Safety, Health and Sustainability Committee to take a holistic approach to Safety, Health and Sustainability matters. Two Independent Directors and one Executive Director constituted this Committee. Normally three meetings are held in a year.

**L&T Limited:**

Safety remains a paramount concern for the leadership team. It has adopted the “Mission Zero Harm” principle and “Live Injury Free Everyday”. There are EHS Committees in all manufacturing locations and a majority of the locations are ISO 45000:2018 compliant.

**Hindustan Unilever Limited:**

HUL’s safety, health and environmental governance is driven by the Central Safety, Health and Environmental Committee chaired by the Managing Director and CEO.

**3. Information/ Cyber Security Committee:**

**Infosys Limited:**

Infosys has a cyber-security risk sub-committee under the Risk Management Committee comprising of 4 Independent Directors. The Committee’s role is to evaluate risks related to cyber-security and ensure appropriate procedures are in place to mitigate these risks in a timely manner.

**REC Limited:**

The Company’s IT Strategy Committee comprises of two Independent Directors, two Executive Directors

and two other subject matter experts. The Committee oversees IT strategy, IT resources management, cyber security, internal controls and governance.

#### 4. Investment Committee

##### **Sundaram Finance Limited:**

The Investment Committee of Sundaram Finance Limited comprises of 2 Executive Directors and 1 Independent Director with the Independent Director chairing the Committee.

The Committee lays down the overall investment objectives of the Company, reviews investment policies, evaluates investment opportunities and treasury and portfolio investments of the Company.

##### **Ashok Leyland Limited:**

The Company has constituted a Technology and Investment Committee comprising five Directors with three of them Independent Directors. The Committee reviews new investment proposals including technology investments, long term strategic goals and new product planning.

#### 5. Other Committees:

##### **Titan Company Limited:**

The Company has constituted a Board **Ethics Committee** comprising four Directors of whom two are Independent Directors. The Chairperson of the Committee is an Independent Director.

The Company has a strong code of ethical conduct on the lines of the Tata code of conduct which is overseen by this Committee.

##### **Reliance Industries Limited:**

The Company has constituted a Finance Committee comprising three non-independent Directors to review the overall financial policies, financial strategies and capital structure, borrowings and cash flow management and make recommendations to the Board as deemed advisable.

Thus, on observing the overall constitution of various committees, it can be concluded that the corporate sector is leaving no stone unturned in ensuring holistic corporate governance in their organisations.

## CONCLUSION

It is the board committees that ensures enforcement of corporate governance in the companies. A robust board of a company can contribute substantially in fostering best governance practices by ensuring compliance to various pertinent laws and regulations, resource management, accomplishment of organisational goals, holistic development of the human capital, prevent harassment of the workforce, embracing of ESG initiatives and so on and so forth. In view of this, various board committees both mandatory and non-mandatory holds massive importance.

However, the size of the board committees and its composition also matters a lot in ensuring corporate governance that is the board members need to possess requisite expertise and experience in dealing with the matters of the concerned board committee and sufficient number of board members should be there in the committee to steer the process efficiently.

Stakeholders both external as well as internal look up to the boards and their committees when it comes to safeguarding of their interests, sustainability and growth of a company, prevention of malpractices, betterment of the workforce, enforcement of safety measures at work stations etc. In view of this, board committees' needs to discharge their professional obligations impeccably.

## LESSON ROUND-UP

- A Board Committee is a small working group identified by the Board, consisting of Board members for the purpose of supporting the Board's work.
- To enable better and more focused attention on the affairs of the Corporation, the board delegates particular matters to committees of the board set up for the purpose.
- Committees are usually formed as a means of improving board effectiveness and efficiency, in areas where more focused, specialized and technical discussions are required.
- Committees prepare the ground work for decision-making and report at the subsequent Board meeting.
- Audit committee is one of the main pillars of the corporate governance mechanism in any company. The committee is charged with the principal oversight of financial reporting and disclosures and enhance the confidence in the integrity of the company's financial reporting and disclosure and aims to the internal control processes and procedures and the risk management systems.
- Greater specialization and intricacies of modern board work is one of the reasons for increased use of board committees.
- **Mandatory committees** under Companies Act 2013 are Audit Committee, Nomination and Remuneration Committee, stakeholders Relationship committee, CSR Committee.
- **Nomination and Remuneration Committee:** Nomination and Remuneration Committee as the name suggests is constituted by a company is to determine the qualification and remuneration packages of executive directors/ chief executive officers.
- **Risk Management Committee:** A business is exposed to various kind of risk such as strategic risk, data security risk, fiduciary risk, credit risk, liquidity risk, reputational risk, environmental risk, competition risk, fraud risk, technological risk etc. A risk management Committee's role is to assist the Board in establishing risk management policy, overseeing and monitoring its implementation.
- **Other committees:** Corporate Governance Committee, Compliance Committee, Risk Management Committee, Ethics Committee, Strategies Committee, Capital Expenditure (Capex) Committee, etc.
- **Corporate Governance Committee:** A company may constitute this committee to develop and recommend the board a set of corporate governance guidelines applicable to the company, implement policies and processes relating to corporate governance principles, to review, periodically, the corporate governance guidelines of the company.
- **Corporate Compliance Committee:** The primary objective of the Compliance Committee is to review, oversee, and monitor the Company's compliance with applicable legal and regulatory requirements, its policies, programs, and procedures to ensure compliance with relevant laws, its Code of Conduct, and other relevant standards.

## GLOSSARY

**Audit Committee:** An audit committee is a group of selected members of a company's board of directors whose responsibilities include helping auditors remain independent of management. Most audit committees are made up of three to five or sometimes as many as seven directors who are not a part of company management.

**Corporate Social Responsibility Committee:** The Corporate Social Responsibility Committee is appointed by the Board of Directors to promote a culture that emphasizes and sets high standards for corporate social responsibility and reviews corporate performance against those standards.

**Independent Director:** An independent director (also sometimes known as an outside director) is a director (member) of a board of directors who does not have a material or pecuniary relationship with company or related persons, except sitting fees.

**Asset-Liability Committee (ALCO):** An asset-liability committee (ALCO), also known as surplus management, is a supervisory group that coordinates the management of assets and liabilities with a goal of earning adequate returns. By managing a company's assets and liabilities, executives are able to influence net earnings, which may translate into increased stock prices.

### TEST YOURSELF

*(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation)*

1. As a Company Secretary, advise your client company, about the need and advantages of Committee Management?
2. Explain in detail the constitution of nomination and remuneration committee?
3. Whether the constitution of Risk Management Committee is mandatory? Explain the importance of constitution of Risk Management Committee?
4. Discuss in detail about Audit Committee.
5. What is the role of the Chairman of the (i) Audit Committee; and (ii) Board of Directors?

### LIST OF FURTHER READINGS

- Board Committees Handbook by Sue Lawrence
- Effective Guide to Corporate Board Committees
- Corporate Governance in India by Jayati Sarkar and Subrata Sarkar
- Corporate Boards, Committees and Policies under Companies Act

### OTHER REFERENCES

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